

S.B. NO. 933

JAN 25 2017

A BILL FOR AN ACT

RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 88-29.5, Hawaii Revised Statutes, is
2 amended to read as follows:

3 " ~~[+] §88-29.5 [+~~ Investment personnel. The board may,
4 through its executive director, appoint one or more investment
5 officers~~[7]~~ and investment professionals, under the direction of
6 the chief investment officer, ~~[prescribing]~~ prescribe their
7 duties and qualifications and ~~[fixing]~~ fix their salaries~~[7~~
8 ~~who]~~. Investment officers and investment professionals,
9 including investment specialists, who are appointed pursuant to
10 this section, shall be exempt from ~~[chapter]~~ chapters 76~~[-]~~ and
11 89."

12 SECTION 2. A person in service as an investment specialist
13 on the effective date of this Act shall have the option, which
14 if exercised shall be irrevocable, to remain subject to chapter
15 76, Hawaii Revised Statutes, so long as the person remains an
16 investment specialist.

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1 SECTION 3. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 4. This Act, upon its approval, shall take effect
4 on July 1, 2017.

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INTRODUCED BY: *MUN-III*
BY REQUEST

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Report Title:

Employees' Retirement System; Personnel

Description:

Allows the Board of Trustees of the Employees' Retirement System, through its Executive Director, to appoint one or more investment professionals and changes the status of investment specialists from civil service to exempt from civil service.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

JUSTIFICATION SHEET

TITLE: A BILL FOR AN ACT RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM

PURPOSE: To allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii, through its executive director, to appoint one or more investment professionals, including investment specialists, who will be exempt from chapters 76 and 89, Hawaii Revised Statutes (HRS).

MEANS: Amend section 88-29.5, Hawaii Revised Statutes.

JUSTIFICATION: Successful investment of the funds of the Employees' Retirement System is one of the primary foundations to the stability and sustainability of the system. The system currently has over fourteen billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system concerning these investments are critical to the current and future funding of the system, which has an unfunded actuarial accrued liability of eight billion seven million dollars and a funded ratio of 62.2 percent as of June 30, 2015.

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, the trustees themselves need not be investment experts. The role of assisting and advising the board with structuring the system's investment portfolio falls primarily with the system's investment staff, which currently consists of a Chief Investment Officer and five investment professionals, two of whom are civil service employees (Investment Specialists). The current staffing is not

adequate given the uncertainty and complexity of modern financial markets. Furthermore, the current staffing structure is out of line with best practices of other similarly sized public pension plans. The investment portfolio has increased its allocations to equity products, covered calls, real return assets, and private equity. In addition, the Employees' Retirement System is transitioning its portfolio to a risk-based asset allocation program, the implementation of which will require additional attention, monitoring and review. Dedication to these investments requires experience and expertise of seasoned professionals. Investment office staff provides the Board with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments.

Impact on the public: Prospect for stabilizing or lowering future contribution needs.

Impact on the department and other agencies:
None.

GENERAL FUND: None.
OTHER FUNDS: None.
OTHER AFFECTED AGENCIES: None.
EFFECTIVE DATE: July 1, 2017.